

Retail Equity Research

Hindalco Industries Limited

Metals & Mining

BSE CODE: 500440

NSE CODE: HINDALCO

Bloomberg CODE: HNDL:IN

SENSEX: 57,973

HOLD

12 Months Investment period Rating as per Large Cap
CMP Rs. 430 TARGET Rs. 465 RETURN 8% ↑
(Closing: 29-08-22)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Resilient performance, but outlook cautious

Hindalco Industries Limited (Hindalco) is an Indian manufacturer of aluminium products and copper. Its operations include bauxite and coal mining, aluminium rolling, and captive power plants.

- Top line surged to Rs. 58,018cr in Q1FY23 (+40.3% YoY), driven by high aluminium prices (+20.1% YoY).
- EBITDA jumped 36.5% YoY to an all-time high of Rs. 8,429cr on the back of better macros, robust performance in the aluminium downstream and copper businesses, along with better operating efficiency. As a result, Q1FY23 PAT rose 84.4% YoY to Rs. 4,078cr.
- Hindalco's capital expenditure (capex) is focused on downstream expansion in the aluminum and copper businesses. However, higher taxes on aluminum, declining metal prices, higher power costs, and slowdown in subsidiary Novelis' North America business pose a risk in the medium term. Hence, being cautious, we downgrade our rating to HOLD with a revised target price of Rs. 465 based on SOTP valuation.

Robust revenue growth across all segments

Revenue leapt 40.3% YoY to Rs. 58,018cr in Q1FY23, thanks to firm aluminium and copper prices. Novelis' net sales increased 38.2% YoY to Rs. 39,289cr, driven by higher aluminum prices in the international market. Domestic aluminium business revenue grew 35.5% YoY to Rs. 11,439cr, while the copper business grew 48.4% YoY to Rs. 10,529cr, on account of higher global prices and robust volumes (+26% YoY at 101kt).

All-time high EBITDA boost the bottom line

EBITDA grew significantly by 36.5% YoY to Rs. 8,429cr. Novelis reported its best ever quarterly adjusted EBITDA of Rs. 4,344cr, on account of higher product pricing, favourable product mix, and higher recycling benefits. The aluminium business' EBITDA totaled Rs. 3,430cr, supported by a favourable macroeconomic environment, higher volumes, and improved operational efficiency, but was partially offset by increase in input costs. The copper business' EBITDA surged 116.5% YoY to Rs. 565cr on the back of higher domestic sales, better operational efficiency, and improved by-product margins. Consequently, Q1FY23 PAT rose 84.4% YoY to Rs. 4,078cr.

Key concall highlights

- Capex guidance for FY23 is unchanged at ~Rs. 3,000cr in India, with majority of it intended for upstream projects - alumina and aluminum value-added products (VAP) expansion coupled with brownfield expansion of Utkal Alumina.
- Net Debt to EBITDA ratio improved to 1.40x (vs. 2.36x as of June 30, 2021).
- The company plans to generate 300MW power from renewable energy till FY25, of which 100MW was installed by FY22-end and 109MW is targeted for FY23E.

Valuation

Aluminium prices in the international markets have been on a downward trajectory during the quarter from \$3,280/ton in Q4FY22 to \$2,882/ton in Q1FY23, and have declined further to \$2,400/ton on QTD basis so far. Moreover, cost of production is expected to increase further in Q2FY23 as the company would be forced to purchase coal at a higher premium from the auction markets, owing to supply restrictions imposed by the government on coal linkages. These factors, in addition to a potential slowdown in the Novelis business, pose a risk to the company's long-term performance. Hence, we remain cautious and downgrade our rating to HOLD with a target price of Rs. 465 based on SOTP valuation methodology.

Company Data

Market Cap (cr)	Rs. 97,943
Enterprise Value (cr)	Rs. 139,929
Outstanding Shares (cr)	222.6
Free Float	65.0%
Dividend Yield	0.9%
52 week high	Rs. 636
52 week low	Rs. 309
6m average volume	545,820
Beta	1.2
Face value	Rs. 1

Shareholding %	Q3FY22	Q4FY22	Q1FY23
Promoters	34.8	34.6	34.7
FII's	26.1	29.0	24.8
MFs/Insti	21.3	19.2	21.6
Public	9.6	9.2	10.1
Others	8.3	7.9	8.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	7.9%	-17.6%	3.8%
Absolute Sensex	8.4%	5.3%	5.2%
Relative Return*	-0.6%	-22.9%	-1.4%

*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	195,059	200,684	197,077
Growth (%)	47.8	2.9	(1.8)
EBITDA	28,657	27,108	26,726
EBITDA Margin (%)	14.7	13.5	13.6
Adj. PAT	13,619	12,379	11,875
Growth (%)	140.0	(9.1)	(4.1)
Adj. EPS	61.2	55.6	53.3
Growth (%)	139.3	(9.1)	(4.1)
P/E	9.3	7.9	8.2
P/B	1.6	1.1	1.0
EV/EBITDA	6.1	5.2	5.2
ROE (%)	17.6	13.8	11.7
D/E	0.8	0.7	0.6

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY23	Q1FY22	YoY Growth %	Q4FY22	QoQ Growth %
Revenue	58,018	41,358	40.3	55,764	4.0
EBITDA	8,429	6,173	36.5	7,304	15.4
EBITDA margins	14.5	14.9	(40bps)	13.1	140bps
Depreciation	1,749	1,645	6.3	1,761	(0.7)
EBIT	6,680	4,528	47.5	5,543	20.5
Interest	847	820	3.3	805	5.2
Other Income	211	267	(21.0)	293	(28.0)
Exceptional Items	41	576	(92.9)	(251)	116.3
PBT	6,088	4,553	33.7	4,781	27.3
Tax	1,969	1,299	51.6	921	113.8
Share of profit from Associate	3	2	50.0	1	200.0
Minority Interest	-	-	-	-	-
Reported PAT	4,119	2,787	47.8	3,851	7.0
Adjustments	(41)	(576)	92.9	251	(116.3)
Adj. PAT	4,078	2,211	84.4	4,102	(0.6)
No. of shares	222.6	222.8	(0.1)	222.6	-
Adj. EPS (Rs.)	18.3	9.9	84.6	18.4	(0.6)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	200,243	203,694	200,684	197,077	0.2	(3.2)
EBITDA	28,991	28,532	27,108	26,726	(6.5)	(6.3)
Margins (%)	14.5	14.0	13.5	13.6	(100bps)	(40bps)
Adj. PAT	13,672	13,600	12,379	11,875	(9.5)	(12.7)
Adj. EPS	61.4	61.1	55.6	53.3	(9.5)	(12.7)

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs. Cr)	Value/share (Rs.)
Standalone	EV/EBITDA	5.0x	FY24E	55,917	251
Novelis	EV/EBITDA	5.1x	FY24E	83,998	377
Net Debt				47,697	214
Quoted Investments @ 20% discount				11,366	51
Target SOTP				103,584	465

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	118,144	132,008	195,059	200,684	197,077
% change	(9.5)	11.7	47.8	2.9	(1.8)
EBITDA	14,372	17,671	28,657	27,108	26,726
% change	(7.8)	22.7	61.4	(4.4)	(1.4)
Depreciation	(5,091)	(6,628)	(6,729)	(6,763)	(7,349)
EBIT	9,215	10,931	21,618	20,345	19,377
Interest	4,197	3,738	3,768	3,434	3,356
Other Income	906	712	1,724	1,353	1,443
PBT	5,924	7,905	19,574	18,264	17,464
% change	(26.7)	33.4	147.6	(6.7)	(4.4)
Tax	2,157	2,723	5,373	5,845	5,588
Tax Rate (%)	36.4	34.4	27.4	32.0	32.0
Reported PAT	3,767	3,483	13,730	12,420	11,875
Adj*	284	2,191	(111)	(41)	-
Adj PAT	4,051	5,674	13,619	12,379	11,875
% change	(26.3)	40.1	140.0	(9.1)	(4.1)
No. of shares (cr)	222.0	222.0	222.7	222.7	222.7
Adj EPS (Rs.)	18.2	25.6	61.2	55.6	53.3
% change	(26.3)	40.1	139.3	(9.1)	(4.1)
DPS (Rs.)	1.0	3.0	4.0	2.8	2.7
CEPS (Rs.)	41.2	55.4	91.4	85.9	86.3

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	8,858	10,111	20,459	19,183	19,224
Non-cash adj.	4,333	6,401	5,272	(1,657)	(1,907)
Changes in W.C	(446)	720	(8,893)	4,289	625
C.F. Operation	12,745	17,232	16,838	21,815	17,942
Capital exp.	(6,833)	(5,517)	(5,355)	(14,048)	(16,752)
Change in inv.	(2,234)	(22,342)	4,242	(976)	(147)
Other invest.CF	640	2,222	(5,961)	(421)	(374)
C.F - Investment	(8,427)	(25,637)	(7,074)	(15,445)	(17,273)
Issue of equity	-	5	(73)	-	-
Issue/repay debt	11,280	(895)	(4,599)	(2,500)	(1,750)
Dividends paid	(320)	(222)	(667)	(620)	(593)
Other finance.CF	(4,304)	(3,770)	(1,426)	0	-
C.F - Finance	6,656	(4,882)	(6,765)	(3,120)	(2,343)
Chg. in cash	10,974	(13,287)	2,999	3,249	(1,674)
Closing cash	21,569	8,809	17,392	20,641	18,967

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	21,569	8,809	17,392	20,641	18,967
Accounts Receivable	9,345	12,959	21,076	20,068	18,722
Inventories	22,384	30,668	44,483	39,738	41,121
Other Cur. Assets	12,984	15,202	15,592	19,322	21,984
Investments	3,154	7,737	8,688	9,119	8,666
Gross Fixed Assets	131,748	137,265	142,620	156,668	173,419
Net Fixed Assets	66,067	70,849	76,470	83,282	92,165
CWIP	7,610	10,013	4,727	5,200	5,720
Intangible Assets	23,217	29,588	30,601	30,922	31,259
Def. Tax (Net)	910	924	1,207	1,169	1,118
Other Assets	2,288	2,997	2,826	2,964	3,052
Total Assets	169,528	189,746	223,062	232,426	242,774
Current Liabilities	28,230	41,210	65,394	64,902	65,686
Provisions	8,351	8,158	6,858	7,201	7,489
Debt Funds	68,572	67,766	65,089	62,589	60,839
Other Liabilities	6,048	6,069	7,519	7,733	7,476
Equity Capital	222	222	222	222	222
Reserves & Surplus	58,095	66,311	77,969	89,768	101,051
Shareholder's Fund	58,317	66,533	78,191	89,990	101,273
Minority Interest	10	10	11	11	11
Total Liabilities	169,528	189,746	223,062	232,426	242,774
BVPS (Rs.)	263	300	351	404	455

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	12.2	13.4	14.7	13.5	13.6
EBIT margin (%)	7.8	8.3	11.1	10.1	9.8
Net profit mgn.(%)	3.2	2.6	7.0	6.2	6.0
ROE (%)	6.5	5.2	17.6	13.8	11.7
ROCE (%)	7.3	8.1	15.1	13.3	12.0
W.C & Liquidity					
Receivables (days)	28.9	35.8	39.4	36.5	34.7
Inventory (days)	104.8	131.5	126.2	109.5	116.8
Payables (days)	85.7	122.2	124.3	116.8	122.2
Current ratio (x)	1.8	1.4	1.3	1.3	1.3
Quick ratio (x)	1.0	0.6	0.6	0.6	0.6
Turnover & Leverage					
Gross asset T.O (x)	0.9	1.0	1.4	1.3	1.2
Total asset T.O (x)	0.7	0.7	0.9	0.9	0.8
Int. coverage ratio (x)	2.2	2.9	5.7	5.9	5.8
Adj. debt/equity (x)	1.2	1.0	0.8	0.7	0.6
Valuation					
EV/Sales (x)	0.6	1.0	0.9	0.7	0.7
EV/EBITDA (x)	4.7	7.4	6.1	5.2	5.2
P/E (x)	5.2	12.8	9.3	7.9	8.2
P/BV (x)	0.4	1.1	1.6	1.1	1.0

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
4-Sep-19	HOLD	195
5-Mar-20	HOLD	174
18-Aug-20	HOLD	206
22-Feb-21	BUY	358
10-Aug-21	BUY	512
22-Feb-22	BUY	608
2-Jun-22	BUY	466
30-Aug-22	HOLD	465

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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